by Murray F. Foss ☆

Investment and Sales Anticipations in 1955

BUSINESS currently expects its plant and equipment outlays this year to aggregate $27 billion, slightly above last year and about $1 billion less than the 1953 record, according to the survey of expectations conducted in February and early March by the Office of Business Economics and the Securities and Exchange Commission. Businessmen also anticipate a higher dollar volume of sales in 1955, averaging about 5 percent above 1954.

Since the movement of capital outlays was slightly downward through 1954 and the first quarter of 1955, the present programs now reported by business indicate an advance from the current level during the coming months of this year.

The investment programs of public utilities and commercial companies, with planned increases of 4 and 7 percent, respectively, are mainly responsible for the projected upturn in investment in 1955, but a number of major manufacturing lines are resuming the uptrend. Furthermore, while manufacturing companies in the aggregate report a total for the full year 3 percent less than in 1954, they expect a rise in expenditures beginning in the second quarter. Both the railroads and mining companies report sizable reductions for the year, but other transportation concerns except another year of high investment.

The survey results for major groups are as follows:

Percent Change in New Plant and Equipment Expenditures, 1954 to 1955

All industries	1
Manufacturing	−3
Durable-goods industries	−4
Nondurable-goods industries	−2
Mining	−8
Railroads	−11
Transportation, other than rail	−1
Public utilities	4
Commercial and other	7

Examination of the survey results by size of firm indicates that very large manufacturers (those with assets over $50 million) expect little change in capital outlays from 1954 to 1955. Expenditures by this group as a whole have been quite stable since 1953 and have been an important sustaining influence in overall fixed capital investment.

Medium-sized firms (with total assets between $5 million and $50 million) also expect to maintain 1954 rates of investment this year, in contrast to last year when they reduced their expenditures. Manufacturers with less than $5 million of assets anticipate some decline during 1955, but in general the plans of such firms are less certain than those of the larger concerns and have a higher degree of flexibility.

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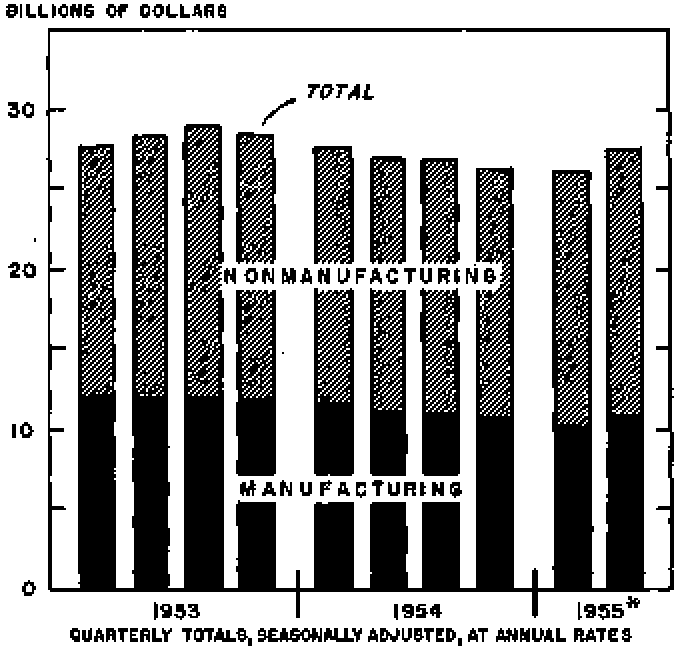
According to the quarterly information collected in this survey, business anticipates that the current quarter will represent the low point of the comparatively mild downtrend in fixed business investment which has been in progress since the third quarter of 1953. Outlays are scheduled at a seasonally adjusted annual rate of $26 billion in the first three months of this year and are expected to advance to $27½ billion in the following quarter. This would represent a 5 percent increase over the average in the first quarter and would bring investment back to the rate of the first quarter of 1954.

Plant and Equipment Expenditures

Rise scheduled for second quarter



* ANTICIPATED DATA: O.B.E. & S.E.C.

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On the assumption that this year's capital spending goal of $27 billion is realized there is implicit in the data a seasonally adjusted annual rate in the second half also at $27½ billion. This pattern suggests that the second quarter gain will be maintained later in the year.

Advances in plant and equipment expenditures from the first to second half of this year are expected by producers of both durable and nondurable goods, and by public utilities, and nonrail transportation firms. The commercial and mining industries show little change in their spending rates over this period, while only the rails anticipate lower capital outlays.

Recent influences on investment

With the expected upturn in business fixed investment, all major sectors of private demand that moved downward in late 1953 will have reversed that movement. There can be little doubt that the recovery in business sales and earnings since last fall has bolstered business confidence and has had a salutary effect on this year's programs.

In addition to increased earnings, depreciation on the expanding stock of capital has been a rising source of internal funds. It is also quite likely that added investment funds have become available to a number of concerns as a result of the provisions of the 1954 tax law which permit higher depreciation charges on new facilities in their early years of use. Another favorable factor that may be cited is the relatively plentiful supply of investment funds from external sources on comparatively favorable terms. Long-term interest rates, while moderately higher than 6 months ago, are still low. Terms of equity financing are close to the lowest point reached in the postwar period.

Other factors affecting recent and near-term investment trends may be mentioned. While the completion of some Korean expansion programs means a lower rate of expenditure on the federally aided capital outlays, the volume of such expansion is still large. On the other hand, replacement and modernization outlays are being maintained, according to information obtained in the current survey. Finally, long-term growth factors are still at work as a result of the population increase and its shift to outlying areas. These factors are the major stimuli in the expansion in investment in retailing, in communications and in public utilities.

Quarterly trend reversed

Actual figures now available for late 1954 indicate that total capital expenditures fell from a seasonally adjusted annual rate of somewhat under $27 billion in the third quarter to close to $26 billion in the fourth. Decreases occurred in manufacturing, mining, railroads and the utilities, while spending by the commercial and nonrail transportation groups was about unchanged. Another small decline is expected in the first three months of this year.

First quarter 1955 investment was off almost 10 percent from the high point in the third quarter of 1953. Of this amount about two-thirds is attributable to the reduced rate of investment in manufacturing facilities. In retrospect it may also be noted how quickly the decline moderated; more than two-thirds of the total decrease occurred in the first half of this 18-month period.

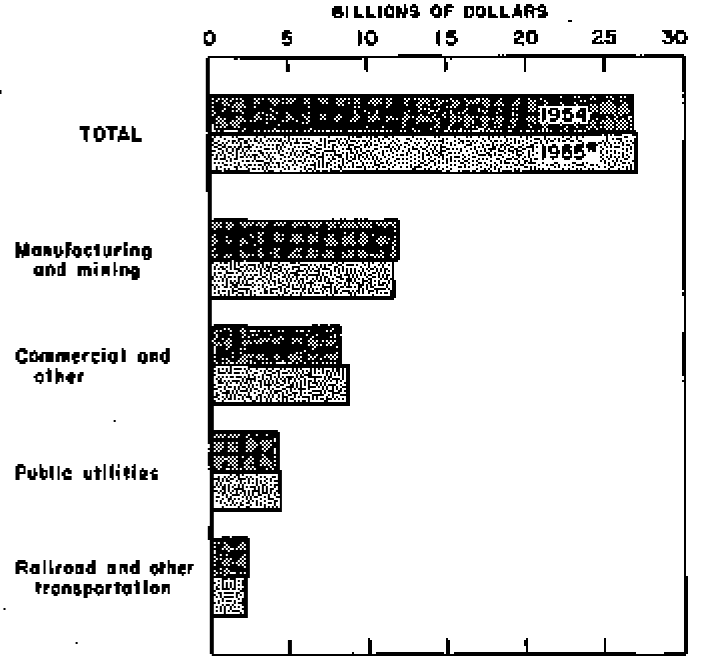
The anticipated 5 percent increase in the second quarter is indicative of a fairly widespread recovery. A rise is expected to take place in both the durable- and nondurable-goods segments of manufacturing, with a somewhat sharper rise in the latter. In public utilities, the gas group reports a pickup in the spring months as a result of new pipeline construction. The commercial group, where the buoyant retail trade programs are predominant, expects the largest relative gain over this period.

Realization of 1954 programs

Anticipated investment in 1954 as reported by business in our annual survey a year ago was close to the amount actually spent, as has been the case in most years since the end of World War II. Actual expenditures declined 5 percent from 1953 to 1954, as compared with an anticipated reduction of 4 percent. Viewed on the whole, the forecasting value of the initial survey was very good.

Manufacturing companies in the aggregate reduced their capital spending about as much as their estimate—7 percent—but some other major groups did not spend quite so much in 1954 as expected early last year. The railroads scheduled a decrease of 28 percent but actually reduced outlays by 35 percent. Public utilities planned a decline of almost 3 percent but actually cut their expenditures by 7

Business Capital Outlays by Major Industry Categories



* ANTICIPATED

DATA: O.B.E. & S.E.C.

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percent, greater relative deviation occurring in gas than in the electric utilities. The mining industry, which was expecting a small increase in its fixed investment rate from 1953, experienced a small decrease. The commercial and nonrail transportation industries, on the other hand, both slightly exceeded their initial expectations.

Comparison of actual and anticipated expenditures by manufacturing industries in 1954 indicates that most industry groups correctly projected the trend in their capital outlays. However, there was a tendency—offsetting in the total—for anticipations of durable-goods producers to underestimate both the relative increases and decreases in investment.

Producers of primary metals and nonelectrical machinery, for example, reduced their capital outlays more than indicated by their early 1954 plans, while automobile and other transportation companies made larger increases than expected. The electrical machinery group experienced a decline, in contrast to an earlier anticipation of little change. In the nondurable-goods field spending by petroleum, rubber and chemical firms fell somewhat short of plans, in contrast to the food and beverage, textile and paper industries, where plans were exceeded.

With respect to size groups, there was a tendency for the largest-size group to spend somewhat less than anticipated, although, as already noted, actual spending was little changed from 1953. Expenditures by small and medium-sized companies in 1954 exceeded earlier anticipations. The latter phenomenon has been observed for the smallest concerns in earlier surveys and is probably a characteristic of firms in which investment budgeting is not widely practiced.

Manufacturing investment

According to the present survey, manufacturers expect to spend $10¾ billion for new productive facilities in 1955. This compares with actual outlays of $12 billion and $11 billion, respectively, in 1953 and 1954. Durable-goods producers expect a 4 percent decline in investment from 1954 to 1955, while nondurable-goods producers anticipate spending 2 percent less.

In the durable goods field investment trends of major industries diverge considerably and many reversals of trend may be noted. Automobile producers are now reducing outlays after the sharp spurt in their programs in late 1953 and in 1954. In contrast, industries that declined last year—iron and steel, nonferrous metals, and machinery except electrical—are expecting increased outlays in 1955, more in the former industries than in the machinery groups. Producers of transportation equipment other than automobiles are also planning to spend more than last year.

In the nondurable goods area the pattern more nearly resembles last year's changes with a few important exceptions. The petroleum industry, the only major industry that has continually increased annual capital outlays since 1949, is planning another small increase. Food and beverages and textiles expect their expenditures to fall again, the latter for the fourth successive year. The chemical and paper industries expect their investment to be about the same as in 1954 while rubber manufacturers foresee a small increase in their spending. Programs of both the chemical and rubber industries were cut sizably last year.

Replacement and expansion

In this year's annual survey companies were requested to segregate their total plant and equipment expenditures in 1954 and 1955 between outlays for replacement and modernization and those for expansion.[1] Because of the nature of the question and the difficulty of precisely defining these categories the data and conclusions presented here should be considered very tentative.

For all manufacturing industries combined, replacement and modernization expenditures were just over three-fifths and expansion close to two-fifths of total plant and equipment expenditures in 1954. The great majority of major industries indicated that replacement and modernization expenditures accounted for between one-half and two-thirds of their aggregate outlays. The chemical industry reported the lowest proportion of 1954 outlays for replacement and the highest for expansion while the opposite was true for textiles.

The survey reveals that from 1954 to 1955 manufacturers as a whole expect to maintain their outlays for replacement and reduce their outlays for expansion by about 4 percent. This pattern is essentially the same for both the durable-goods and the nondurable-goods groups.

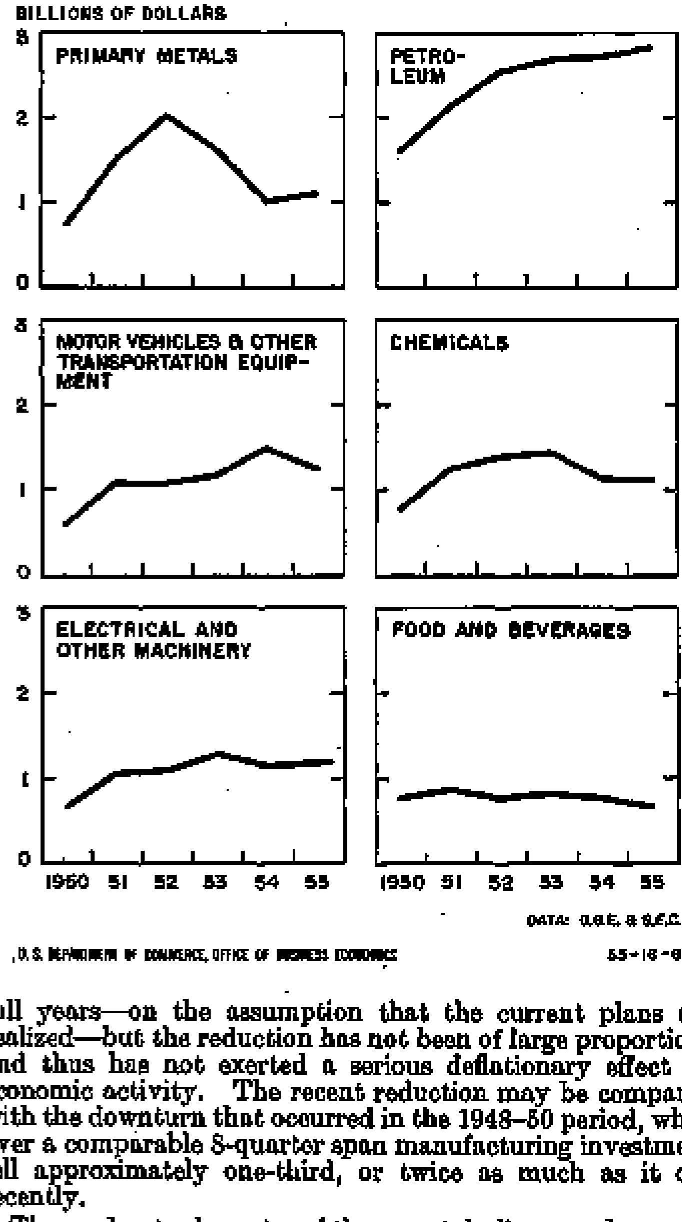
1. Replacement and modernization expenditures in this survey generally refer to outlays made primarily to replace worn out, obsolete or less economical plant and equipment already owned by the firm. Expansion outlays generally refer to capital outlays that primarily add to rather than replace the company's production, distribution, transportation, administrative and general facilities. Respondents were given considerable leeway in answering the question since it was recognized that the division between the two types of expenditures might not be well defined in a number of instances.

When more detailed industries are examined, it appears that for industries in which increased outlays are anticipated from 1954 to 1955, expansion outlays are almost always expected to advance, while replacement outlays are being either maintained or increased. Industries with anticipated decreases in investment in most cases show planned reductions in both replacement and expansion expenditures.

The 1953–54 manufacturing decline

Although the survey indicates that manufacturing outlays in 1955 as a whole will be slightly lower than they were last year, of greater significance is the anticipated recovery in manufacturing investment following the first quarter of the present year. The manufacturing drop will have lasted two

Manufacturing Investment Programs



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full years—on the assumption that the current plans are realized—but the reduction has not been of large proportions and thus has not exerted a serious deflationary effect on economic activity. The recent reduction may be compared with the downturn that occurred in the 1948–50 period, when over a comparable 8-quarter span manufacturing investment fell approximately one-third, or twice as much as it did recently.

The moderate character of the recent decline may be partly explained by the fact that investment cycles of the various industries have not coincided in their timing. Thus the primary metals industries, which reached their mobilization peak in 1952, were a significant contributing factor in the decline in durable goods investment from 1953–54. The impact of this drop on aggregate investment was moderated to a considerable extent by the sharp increase last year in outlays by automobile producers, whose expenditures in the mobilization years, 1951–53, had undergone comparatively little change.

As a result of such divergent movements, the net decline in durable goods investment from the peak in the first quarter of 1953 to the indicated trough in the first quarter of this year will have amounted to 20 percent. This may be compared with a one-third decrease in durable manufacturing investment between the third quarter of 1948 and the fourth quarter of 1949, a period that witnessed a drop in capital outlays in virtually every major manufacturing industry.

Nonmanufacturing

Last year nonmanufacturing investment fell by less than 4 percent from the previous year, as a rise by the commercial group partially offset the sharp drop in railroad expenditures and the much smaller relative declines in utilities, mining and other transportation. This year's survey reveals a resumption of the rise in nonmanufacturing, sizable gains in the commercial industries being augmented by a slight increase in the programs of utilities.

Utilities expect rise

The public utilities expect to spend $4.4 billion for new plant and equipment in 1955, a 4 percent increase from last year. Expenditures for the group are anticipated to show a rising trend throughout 1955, attributable to higher investment in natural gas transmission lines. The electric companies expect little change from 1954.

Since the end of 1950 the utilities have made net additions of 25 million kw.-hr. to their capacity, a rise of almost 50 percent. According to trade reports, outlays for electric generating facilities in 1955 are expected to decline for the second successive year, while higher outlays are being scheduled for transmission and distribution facilities. Outlays for distribution facilities, though rising, are still lower than they were in 1949.

Railroads plan further cuts

During the coming year a further reduction of about 11 percent is being planned by the railroads. This will bring rail expenditures to about $¾ billion, well below spending rates in other postwar years. The drop is smaller than that from 1953 to 1954, when outlays were reduced by almost one-half billion dollars. Over that period installations of diesel locomotives were reduced almost one-half while freight car installations declined even more relatively. For the first time since 1950 more freight car capacity was retired than purchased. Outlays for passenger cars were maintained but expenditures for roadways and structures declined one-fifth.

Commercial strong

The most buoyant area of investment in the coming year is in the commercial field, where trade firms particularly and communications companies to a lesser extent are planning increases over 1954 spending.[2] The boom in investment by the former group reflects the high rate of activity by food, general merchandise, apparel and drug firms in opening stores in new shopping centers, as well as their extensive modernization programs for stores in established communities. All size groups expect an increased rate of expansion in 1955. The very largest organizations anticipate a somewhat smaller relative rise than do the smaller size groups probably because of the sustained high level of their investment in recent years.

Sales Anticipations

The 1955 sales anticipations collected in this survey indicate that businessmen over a wide range of industries are looking forward to higher sales this year. Advances are being projected in manufacturing, wholesale and retail trade, and gas and electric utilities. The largest relative increase among the major industrial groups is the 8 percent rise expected by the public utilities.

Table 1.—Manufacturers' Sales Expectations, 1955, by Industry [1]

	Expected percent change in sales 1954–55
Total	4
Durable goods industries	5
Primary iron and steel	9
Primary nonferrous metals	12
Electrical machinery	4
Machinery except electrical	1
Transportation equipment including motor vehicles	4
Stone, clay, and glass products	5
Other durable goods [2]	5
Nondurable goods industries	4
Food and beverages	4
Textile-mill products	6
Paper and allied products	4
Chemicals and allied products	7
Petroleum and coal products	2
Other nondurables [3]	4

1. These anticipations were reported by business during February and early March.
2. Includes fabricated metals, lumber, furniture, instruments, ordnance, and miscellaneous.
3. Includes rubber, tobacco, apparel, printing and publishing, and leather.

Source: U. S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

All major manufacturing industries are projecting sales increases during the coming year. The durable-goods group foresees a rise of 5 percent, and nondurables, an advance of 4 percent over 1954. When the current rates of sales are compared with these sales projections, the implications for the remainder of this year are for the maintenance of durable-goods sales at the improved rate reached in the fourth quarter of 1954, and for a further increase in the case of nondurables.

The primary metals industries, which declined most last year in the durable-goods field, expect the largest relative gain this year—10 percent, with the expectations of nonferrous metals producers somewhat higher than those of steel companies. Machinery companies expect a somewhat smaller advance than the durable-goods average, possibly reflecting the fact that for industry generally investment outlays this year are expected to be only slightly above 1954.

In nondurables projected sales increases fall within a comparatively narrow range. Somewhat larger-than-average increases are expected by the chemicals and textiles industries while the petroleum and rubber industries anticipate less-than-average gains. (See table.)

2. This year for the first time direct information was obtained by the Office of Business Economics on capital spending plans of retail firms not registered with the Securities and Exchange Commission. This supplements the data supplied by trade firms registered with the SEC. The new sample covers retail firms with one or more employees—corporate as well as noncorporate, and chain as well as independent stores.

Projected vs. realized sales in 1954

Manufacturers' sales appraisals for 1954 as reported in the survey a year ago were quite close in the aggregate to actual sales. The trend was correctly indicated, but the drop of 5 percent from 1953 was somewhat larger than the 3 percent forecast.

In durable-goods manufacturing, shipments decreased 11 percent over the year as against a projected 8 percent, while in nondurable goods the respective changes were rises of 1 percent and 3 percent. Actual sales fell somewhat short of projections in most hard-goods lines—the stone, clay and glass industry proving the only exception, with a small increase instead of a decrease. There were large deviations in the steel and nonferrous metals industries.

In nondurables, discrepancies between actual and anticipated sales were less pronounced than in durables. Sales in the food and beverages and chemicals industries came close to realization. Textile sales fell somewhat more and petroleum sales rose somewhat less than anticipated. Sales of the rubber industry were off sharply from their projection of a small drop, while paper companies exceeded sales projections slightly.

A comparison of last year's plans and results points to a significant correlation between actual and anticipated investment and sales. Iron and steel, nonferrous metals, electrical and other machinery, chemicals, petroleum and rubber had either larger sales declines or smaller sales increases than expected, and also invested less than anticipated. Similarly the industries with higher than projected sales, such as stone and paper, invested more than planned. This suggests that deviations from sales expectations last year caused many industries to adjust their investment programs in the same direction.

The major exception was the transportation equipment industry, where investment considerably exceeded plans even though sales fell a little short of expectations. Here the major factor was the large-scale model changes in the automobile industry. This change in product has had a very considerable favorable effect upon the market for cars, as has been pointed out in recent issues of our monthly business analyses. It is a good example of the effects upon the general business situation of autonomous management decisions.

Table 2.—Expenditures on New Plant and Equipment by U. S. Business,[1] 1952–55

[Millions of dollars]

	1952	1953	1954	1955 [2]	1953 Jan.–March	1953 Apr.–June	1953 July–Sept.	1953 Oct.–Dec.	1954 Jan.–March	1954 Apr.–June	1954 July–Sept.	1954 Oct.–Dec.	1955 Jan.–March [2]	1955 Apr.–June [2]
Manufacturing	11,632	11,908	11,038	10,704	2,668	[illegible]	2,888	3,284	2,669	2,858	2,645	2,865	2,458	2,663
Durable goods industries	5,614	5,448	5,091	4,879	1,290	1,437	1,318	1,582	1,291	1,360	1,307	1,373	1,165	1,179
Primary iron and steel	1,511	1,210	754	806	297	333	301	290	190	208	108	106	158	192
Primary nonferrous metals	312	412	240	278	102	109	99	103	69	60	53	55	57	63
Electrical machinery and equipment	384	475	439	436	87	118	116	154	96	118	102	132	96	97
Machinery except electrical	701	797	694	737	163	213	169	212	169	171	105	198	177	180
Motor vehicles and equipment	855	1,160	1,489	1,225	281	258	376	410	372	463	380	379	230	294
Transportation equipment excluding motor vehicles	211													
Stone, clay, and glass products	330	340	381	410	77	88	88	95	78	88	80	115	96	108
Other durable goods [3]	1,107	1,230	1,110	970	310	323	281	320	288	240	255	208	242	246
Nondurable goods industries	6,018	6,280	5,946	5,838	1,378	1,441	1,470	1,701	1,308	1,559	1,435	1,603	1,333	1,484
Food and beverages	700	812	763	660	180	241	188	188	197	204	184	180	161	161
Textile mill products	434	378	331	292	100	104	84	90	81	88	76	86	68	71
Paper and allied products	304	400	464	451	82	98	110	118	104	117	111	124	106	130
Chemicals and allied products	1,380	1,428	1,130	1,110	325	381	344	378	300	292	252	277	250	271
Petroleum and coal products	2,536	2,608	2,684	2,705	522	684	671	701	630	696	652	776	624	719
Rubber products	164	161	131	130	36	44	38	44	32	36	29	35	34	38
Other nondurable goods [4]	377	404	451	460	118	108	85	93	115	118	104	114	95	109
Mining	985	986	975	848	219	228	258	281	219	261	251	244	223	222
Railroad	1,396	1,311	854	763	312	369	290	341	250	245	179	180	184	202
Transportation, other than rail	1,600	1,565	1,512	1,495	361	382	404	402	384	376	374	379	360	382
Public utilities	3,887	4,552	4,219	4,384	924	1,159	1,220	1,247	924	1,123	1,080	1,109	947	1,168
Communications	1,637	1,094	1,717	5,810	1,883	2,038	2,039	2,070	1,916	2,071	2,133	2,110	2,046	2,361
Commercial and other [5]	5,667	6,310	6,613											
Total	26,493	28,322	26,827	27,063	6,329	7,274	7,064	7,626	6,296	6,932	6,640	6,959	6,296	6,985
					Seasonally Adjusted at Annual Rates (Billions of dollars)									
Manufacturing					11.89	11.96	11.04	11.63	11.02	11.00	10.96	10.60	10.34	10.74
Durable					5.80	5.69	5.00	5.63	5.40	5.18	5.00	4.80	4.72	4.86
Nondurable					6.19	6.21	6.33	6.30	6.22	5.90	5.96	5.79	5.62	5.88
Mining					.94	.91	1.08	1.05	.94	1.04	1.00	.91	.93	.88
Railroad					1.34	1.34	1.30	1.29	1.04	.91	.90	.68	.78	.76
Transportation, other than rail					1.47	1.51	1.65	1.62	1.47	1.44	1.51	1.53	1.50	1.47
Public utilities					4.40	4.62	4.81	4.48	4.33	4.37	4.13	4.01	4.06	4.34
Commercial and other [5]					7.70	7.93	8.08	8.28	7.97	8.07	8.42	8.46	8.63	8.21
Total					27.54	28.10	28.82	28.53	27.46	26.98	26.84	26.18	26.04	27.48

1. Data exclude expenditures of agricultural business and outlays charged to current account. Estimates after 1952 have been revised.
2. Estimates based on anticipated capital expenditures as reported by business in February and early March 1955. The seasonally adjusted data include in addition to a seasonal correction, an adjustment, when necessary, for systematic tendencies in anticipatory data.
3. Includes fabricated metal products, lumber products, furniture and fixtures, instruments, ordnance, and miscellaneous manufactures.
4. Includes apparel and related products, tobacco, leather and leather products, and printing and publishing.
5. Annual figures for 1952–54 include trade, service, finance, and construction. Anticipated data for 1955 and quarterly data for 1953 and 1954 also include communications.

Source: U. S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.